Before the
Federal Communications Commission
Washington, D.C. 20554

In the Matter of Federal-State Joint Board on Universal Service	CC Docket No. 96-45

COMMENTS OF CENTENNIAL CELLULAR CORP.
ON THE PUERTO RICO TELEPHONE COMPANY'S
PETITION FOR RECONSIDERATION

1. Introduction.

Centennial Cellular Corp. ("Centennial") holds the "B" block Personal Communications Service ("PCS") license for the Puerto Rico-US Virgin Islands MTA. Centennial's Puerto Rico PCS system has been operational for almost two years. Another Centennial subsidiary is Puerto Rico's only certificated landline competing local exchange carrier.

Centennial has invested heavily in the infrastructure needed to provide both landline and wireless service to Puerto Rico's business and residence customers. In addition, both its wireless and landline subsidiaries have negotiated interconnection agreements with the Puerto Rico Telephone Company ("PRTC") under the terms of the Telecommunications Act of 1996. Those agreements were approved by the Puerto Rico Telecommunications Regulatory Board (the "Board") in May 1997. For these reasons, Centennial is quite familiar with the particular circumstances affecting the provision of telecommunications services in Puerto Rico, as well as with PRTC and some of its operating practices.

Centennial strongly supports the goals of the universal service programs of this Commission and of the Board. Indeed, Centennial anticipates that both its PCS subsidiary and its landline competitive LEC subsidiary will be actively involved in ***providing*** universal service in Puerto Rico. Centennial also expects that under the "competitively neutral" universal service mechanisms adopted by the Commission, and to be adopted by the Board, Centennial will be entitled to per-line universal service subsidies equivalent to those PRTC will receive. Centennial, therefore, has no inherent interest in lowering PRTC's subsidy payments.

Nonetheless, Centennial must compete against PRTC in all market segments. As a result, Centennial is concerned that PRTC may be trying to perpetuate a situation where it can abuse the universal service system by obtaining funds in the name of universal service, but then use those funds to unfairly subsidize its efforts to compete against Centennial and others. Because of this concern, and because Centennial itself is directly familiar with operating conditions in Puerto Rico, Centennial is skeptical of PRTC's claim that providing telecommunications services in Puerto Rico inevitably leads to high costs.

Specifically, in its Petition for Reconsideration,[1] PRTC claims that Puerto Rico is "insular," and that this creates a situation where PRTC's costs will be higher than those of other telephone companies of similar size located in the contiguous United States. PRTC's basic position is that for universal service purposes, a million-plus-line, billion-dollar-per-year, Tier 1 LEC should be treated just like the small, isolated telephone companies serving Guam, Samoa and the Northern Marianas Islands.[2] As discussed below, this claim is baseless.

2. There Is No Factual Basis For PRTC's Claim That It Does Not Enjoy Economies Of Scale And Scope Comparable To Those Of The RBOCs.

Centennial's reply comments in this matter, filed in January 1997, showed the absurdity of PRTC's claim that "insularity" affects its costs in any significant way.[3] That filing

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[1] "Petition for Reconsideration" in CC Docket No. 96-45 (filed July 17, 1997) (the "Petition").

[2] *See* Petition at 5 n.6.

[3] Reply Comments of Centennial Cellular Corp., CC Docket No. 96-45 (filed January 10, 1997) at 8-9, *citing* data available at http://www.pr-eda.com, the Web site of Puerto Rico's Economic Development Agency.

showed that Puerto Rico is a major shipping and air transport hub; that Puerto Rico has a highly developed internal transportation infrastructure; and that Puerto Rico has a robust and growing economy.[4] In addition, most of Puerto Rico's telephone customers are located in urbanized areas such as San Juan, Ponce and Mayaguez. These facts cast doubt on PRTC's claim that its "insular" location leads to higher-than-average costs. Centennial will not repeat its reply comments here, but respectfully refers the Commission to them.

This pleading provides some additional data regarding PRTC's specific claim that its size and insularity prevent it from achieving the same economies of scale and scope as the Regional Bell Operating Companies ("RBOCs"). *See* Petition at 10-13. Centennial had occasion to review objective evidence relating this claim in an unrelated proceeding. The results of that review (based on ARMIS and other public data) are shown in Attachment 1.

Both on an overall basis (Telephone Plant in Service) and in all categories except loop costs, PRTC's per-line investment levels are quite similar to those of the RBOCs. Indeed, PRTC's per-line investment levels are ***below*** the average RBOC investment for all TPIS excluding loops, for switching investment, and for inter-office transport investment. Other than loops, therefore — and directly contrary to PRTC's claim — it appears that PRTC ***does*** "[h]ave economies of scale [and] scope similar to the BOCs." *See* Petition at 10.

The fact that PRTC's all of PRTC's costs other than loop costs are comparable to those of the RBOCs shows that there is no merit to PRTC's claim that the "insularity" of its service territory significantly affects its costs. How could Puerto Rico's supposed "insularity" increase the costs of loop transport facilities, but not inter-office transport facilities, switches, or anything else? It is hard to imagine any aspect of "insularity" that would ***only*** affect loop costs. Yet only PRTC's loop costs are aberrational. The task for the Commission is to find out why.

One possibility is that PRTC's loops are, on average, longer than those of the RBOCs. This may be true (*see* below). If so, some explanation is needed, because most of

[4] *Id.*

PRTC's customers are located in metropolitan areas.[5] Centennial also suspects that a firm like U S West, whose territory includes the formidable Rocky Mountains, would take issue with the claim (*see* Petition at 2) that PRTC's territory is somehow harder to serve than other companies' territories.[6] Yet PRTC's per-line loop investment is nearly 21% higher than U.S. West's.[7]

A more likely possibility is suggested by PRTC's level of employees. Here, as with loop costs, PRTC is quite aberrational. Its employee level — 63 employees per 10,000 access lines — is more than 60 percent higher than the mean figure of 39, and a full 50 percent higher than Southwestern Bell, its closest rival on this score.

Because placing loop plant is labor-intensive, loop investment accounts will necessarily include substantial amounts of capitalized labor.[8] PRTC's aberrational employee-per-line levels suggest that the Commission should carefully consider whether PRTC's loop costs are so high for the simple reason that PRTC has been remarkably inefficient in placing its loop plant. This would not be the result of any supposed "insularity" of PRTC's service territory but, instead, would be due to PRTC's inability or unwillingness to manage its operations effectively.

Two factors suggest why this might have occurred. First, PRTC is an arm of the Puerto Rico government. One can easily imagine that the political factors affecting PRTC's operations make it easier to justify spending money on jobs than on the efficient deployment of capital. Such a PRTC operating philosophy would go a long way towards explaining PRTC's

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[5] If higher average loop length is the problem, however, there is no reason to suspect that a proxy cost model would fail to reflect the higher costs associated with longer loops. This fact — along with PRTC's demonstrably "normal" cost levels in cost categories other than loops — fatally undermines PRTC's claim that proxy cost models cannot reasonably be applied to its operations. *See* Petition, Section III.

[6] *See* Petition at 2 (referring to Puerto Rico's "challenging terrain").

[7] *See* Attachment 1.

[8] *See* 47 C.F.R. § 32.2000(c).

outlandish loop investment levels, especially when viewed in light of its objectively ***low*** levels of investment in other investment categories.

From this perspective, Attachment 1 suggests that PRTC has under-invested in switches, with relatively few switches concentrated in urban areas and relatively short connections between them. Such an under-investment would force PRTC to place excessively long loops (and employ a large number of people in the process) to reach its more distant customers. PRTC, therefore, has substituted loops for switching and transport, with the result that it has under-invested in the latter and over-invested in the former, when compared to the practices of similarly situated large telephone companies.[9] PRTC's lopsided investment in loops must certainly be considered in assessing PRTC's entitlement to universal service subsidies. But the fact that its overall non-loop investment per line is below the per-line investment levels of the RBOCs demolishes PRTC's claim that the insular nature of Puerto Rico drives up its costs up, and suggests that an objectively efficient firm would not have incurred such high loop costs.

This suggests a second possibly explanation for PRTC's obviously distorted investment decisions. Unlike the RBOCs — whose networks have been "built out" for decades — over the last twenty-five years PRTC has expended considerable effort to simultaneously modernize its facilities and increase its penetration levels. This period (from the early 1970s to the present) is precisely the time that federal subsidies to high-cost companies, and particularly companies with high-cost loops, have been at their zenith. If more federal subsidy dollars were available for loop costs than for other costs, then PRTC would have had an incentive, created by the subsidy mechanisms themselves, to bias its investment choices towards loops and away from switching and transport. The Commission, therefore, may find it useful to consider (or investigate) whether PRTC's high loop costs present an example, not of "insularity" leading to

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[9] Based on the figures in Table 1, and assuming that PRTC has approximately 1,200,000 lines in service, PRTC could invest an additional $120,000,000 in switching and inter-switch transport equipment without exceeding the per-line average of the RBOCs for all non-loop investment. Clearly, had it done so, it would have been able to substantially shorten some of its more excessive loop lengths through the simple process of placing more switches closer to its customers.

high costs, but, instead, of the powerful yet economically irrational incentives embodied in the universal service system that, under Section 254 of the Communications Act, must be dismantled.

3. Conclusion.

Centennial fully supports the goal of universal service in Puerto Rico. Centennial also fully understands that there are some areas on the island (as in other parts of the country) that are indeed remote and difficult to serve at reasonable cost. But viewed as a whole, Puerto Rico is a highly urbanized area with the vast majority of telephone customers living in large cities and suburbs. These facts suggest that PRTC should be able to achieve the same levels of economies of scale and scope enjoyed by the RBOCs. The objective data show that it can and does achieve such economies. Indeed, PRTC is ***below*** the average RBOC cost for switching and inter-switch transport facilities, and for all plant (excluding loops) viewed as a whole. It is only in the area of loops, and in the related area of employee levels, that PRTC shows unusually high costs. Whatever the cause of these investment anomalies, they cannot be blamed on either the demographic characteristics of the Puerto Rico telecommunications market or on the supposedly "insular" status of Puerto Rico.

Respectfully submitted,

CENTENNIAL CELLULAR CORP.

By: ______________________

Christopher W. Savage
Cole, Raywid & Braverman,L.L.P.
1919 Pennsylvania Avenue, N.W.
Suite 200
Washington, D.C. 20006
202-659-9750

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Attachment 1:

Comparison of PRTC and the RBOCs

Selected ARMIS and Other Data

Attachment 1

Comparison of PRTC with RBOCs

Total Plant In Service/Line		
Ameritech	$	1,437
Bell Atlantic	$	1,615
PacTel	$	1,623
NYNEX	$	1,875
PRTC	**$**	**1,904**
SWBT	$	1,964
US West	$	2,023
BellSouth	$	2,038
Mean	$	1,810
Standard Dev.	$	222
PRTC Variance	**$**	**94**
Variance/Std. Dev.		0.423
Mean w/o PRTC	$	1,801

TPIS (excluding loops)/Line		
Ameritech	$	796
PRTC	**$**	**903**
PacTel	$	933
Bell Atlantic	$	951
SWBT	$	1,075
BellSouth	$	1,086
NYNEX	$	1,095
US West	$	1,195
Mean	$	1,004
Standard Dev.	$	130
PRTC Variance	**$**	**(101)**
Variance/Std. Dev.		0.780
Mean w/o PRTC	$	1,012

Switching Investment/Line		
Ameritech	$	287
Bell Atlantic	$	305
PacTel	$	312
PRTC	**$**	**314**
BellSouth	$	357
SWBT	$	357
US West	$	383
NYNEX	$	410
Mean	$	341
Standard Dev.	$	43
PRTC Variance	**$**	**(27)**
Variance/Std. Dev.		0.622
Mean w/o PRTC	$	344

Transport Investment/Line		
PRTC	**$**	**41**
BellSouth	$	57
PacTel	$	65
Bell Atlantic	$	73
SWBT	$	97
Ameritech	$	103
US West	$	105
NYNEX	$	119
Mean	$	83
Standard Dev.	$	27
PRTC Variance	**$**	**(42)**
Variance/Std. Dev.		1.517
Mean w/o PRTC	$	84

Emp./10,000 Lines	
Bell Atlantic	31
PacTel	31
Ameritech	34
BellSouth	34
NYNEX	38
US West	41
SWBT	42
PRTC	**63**
Mean	39
Standard Dev.	10
PRTC Variance	**24**
Variance/Std. Dev.	2.268
Mean w/o PRTC	40

Loop Investment/Line		
Ameritech	$	641
Bell Atlantic	$	664
PacTel	$	691
NYNEX	$	779
US West	$	829
SWBT	$	889
BellSouth	$	952
PRTC	**$**	**1,001**
Mean	$	806
Standard Dev.	$	135
PRTC Variance	**$**	**195**
Variance/Std. Dev.		1.443
Mean w/o PRTC	$	810

Source:
All information calculated from publicly available sources: ARMIS Reports 43-02, 43-04, and 43-07, as of 12/31/95, and 1995 FCC *Statistics of Common Carriers*

CERTIFICATE OF SERVICE

I, Linda M. Blair, a secretary with the law firm of Cole, Raywid & Braverman, L.L.P., do hereby certify that a copy of the foregoing was sent this 18th day of August 1997, via first -class, postage prepaid, United States mail to the following:

Joe D. Edge.
Tina M. Pidgeon
Drinker Biddle & Reath, LLP
901 15th Street, N.W., Suite 900
Washington, D.C. 20005

Linda M Blair

Linda M. Blair

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